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IN THIS ISSUE:

Private Forecasters Pessimistic About FY 1992 Japanese Economy 1

Cabinet Seeks To Spur Japanese Economy 3

LDP's By-Election Defeat Clouds Miyazawa's Future 5

Customs' Honda Ruling Roils Domestic Content Controversy 6

Private Forecasters Pessimistic About FY 1992 Japanese Economy

Japan's private-sector business forecasters sometimes are accused of being excessively influenced by the government outlook in making predictions about the economy's performance for the coming fiscal year, but the accusations look hollow this year. In contrast to their government counterparts, who expect the nation's inflation-adjusted gross national product to grow 3.5 percent in the fiscal year that begins April 1 (following an estimated 3.7 percent real expansion in FY 1991), private-sector economists predict that growth will average a mere 3 percent in FY 1992 (see Table). This projected rate compares to the 3.5 percent gain estimated by the same forecasters for FY 1991. (For details of the government outlook, released in late December, see *JEI Report* No. 1B, January 10, 1992.) If the private consensus proves correct, growth in FY 1992 will exceed only slightly that in the FY 1986 recession year, when the economy grew 2.9 percent, its worst showing since FY 1974.

Only one forecaster, the perennially optimistic Research Institute of the National Economy, is more sanguine about the economy in FY 1992 than is the government. Its expectation that real GNP will expand 4 percent in the coming fiscal year is at least half a percentage point higher than any of the other 38 private-sector forecasters surveyed. Most pessimistic are the respected Nomura Research Institute and Dai-Ichi Kangyo Bank, Ltd., both of which believe the economy will grow only 2.3 percent after adjustment for inflation in FY 1992.

The forecasts by Nomura and the Research Institute of the National Economy are notable in at least one other respect. Despite their opposite stance on the buoyancy of the overall economy, they both predict that the external sector will boost growth significantly in FY 1992. They envision an

Summary of Private Forecasts for FY 1992

(percent change unless otherwise indicated)

	Real GNP		Real Consumer Spending	Real Capital Spending	Consumer Prices	Current Account Surplus*	¥/$ Exchange Rate	Oil Prices ($/barrel)
	FY 1991	FY 1992						
Banks								
Sumitomo Trust & Banking Co., Ltd.	3.6%	3.4%	3.5%	4.0%	2.1%	$68.4	¥135.0	$19.8
Bank of Tokyo, Ltd.	3.6	3.2	3.6	4.0	1.9	73.2	127.0	20.8
Bank of Yokohama, Ltd.	3.6	3.1	3.5	2.4	2.1	91.7	128.0	28.3
Kyowa Saitama Bank, Ltd.	3.6	3.1	3.2	2.2	2.0	72.6	129.3	18.5
Mitsubishi Trust & Banking Corp.	3.6	3.1	3.1	3.0	2.7	76.0	129.0	21.0
Fuji Bank, Ltd.	3.5	3.0	2.8	2.8	2.0	70.0	135.0	21.3
Mitsubishi Bank, Ltd.	3.5	3.0	2.8	4.1	2.5	64.4	125.0	21.4
Mitsui Trust & Banking Co., Ltd.	3.5	3.0	3.0	3.1	2.4	75.7	127.4	20.0
Yasuda Trust & Banking Co., Ltd.	3.4	2.9	3.1	2.5	2.2	76.5	130.4	19.3
Daiwa Bank, Ltd.	3.3	2.8	2.9	3.8	2.6	80.1	128.0	18.0
Nippon Credit Bank, Ltd.	3.5	2.8	2.9	2.9	2.3	74.5	133.0	20.3
Tokai Bank, Ltd.	3.1	2.8	3.3	2.8	2.0	60.8	120.0	20.0
Industrial Bank of Japan, Ltd.	3.6	2.7	2.9	1.9	2.1	76.1	131.0	18.0
Toyo Trust & Banking Co., Ltd.	3.5	2.7	3.2	2.3	2.1	70.7	126.0	20.0
Chuo Trust & Banking Co., Ltd.	3.2	2.6	3.2	2.9	2.2	65.0	131.3	18.5
Hokkaido Takushoku Bank, Ltd.	3.6	2.6	3.4	2.0	2.0	79.9	129.4	18.1
Sumitomo Bank, Ltd.	3.7	2.6	3.2	1.4	2.0	74.4	130.0	19.5
Dai-Ichi Kangyo Bank, Ltd.	3.3	2.3	2.7	-0.1	2.2	84.0	130.3	19.5
Insurance Companies								
Meiji Mutual Life Insurance Co.	3.6	3.2	2.9	2.9	2.4	79.1	127.5	19.5
Sumitomo Life Insurance Co.	3.5	3.1	3.2	2.8	2.5	75.0	130.0	20.0
Tokio Marine & Fire Insurance Co., Ltd.	3.5	2.9	3.0	1.5	2.5	73.0	130.0	19.0
Asahi Mutual Life Insurance Co.	3.3	2.8	3.2	1.7	2.1	78.6	132.8	19.2
Dai-Ichi Mutual Life Insurance Co.	3.5	2.5	2.9	0.2	2.1	80.2	130.0	18.0
Trading Companies								
Marubeni Corp.	3.5	3.3	3.1	3.6	3.0	66.8	132.0	20.0
Mitsubishi Corp.	3.7	3.0	3.6	3.4	2.1	70.0	128.0	20.2
Sumitomo Corp.	3.4	2.6	3.2	0.8	1.8	74.9	130.0	19.0
Research Organizations								
Research Institute of the National Economy	3.7	4.0	3.8	5.2	2.2	67.8	126.5	19.0
Kansai Economic Research Center	3.6	3.5	3.7	6.0	2.4	63.0	128.1	22.5
Cosmo Securities Economic Research Institute	3.5	3.3	3.1	2.9	2.1	86.4	131.8	20.0
Japan Economic Research Center	3.7	3.2	3.2	2.2	2.1	105.5	121.0	19.3
Sanyo Research Institute	3.4	3.2	3.0	3.1	2.3	64.1	125.0	19.5
Daiwa Institute of Research	3.8	3.1	3.2	3.3	1.9	76.4	126.5	20.0
Kangyo Kakumaru Research Institute	3.4	3.1	3.7	0.4	2.5	78.4	133.0	19.3
Yamaichi Research Institute	3.5	3.1	3.2	1.8	2.2	80.5	130.0	19.0
Mitsui Taiyo Kobe Research Institute	3.8	3.0	3.1	3.3	2.1	82.9	125.0	19.0
Okasan Economic Research Institute	3.5	2.9	2.8	1.9	2.3	77.2	127.5	18.1
Mitsubishi Research Institute	3.2	2.7	3.7	1.6	1.2	86.4	120.0	20.8
Nikko Research Center	3.3	2.7	2.9	-0.4	2.2	76.9	125.0	20.0
Nomura Research Institute	3.4	2.3	2.8	-1.0	2.5	87.4	138.0	17.0
Average Forecast	**3.5**	**3.0**	**3.2**	**2.4**	**2.2**	**76.0**	**128.8**	**19.8**

*In billions of dollars.

Source: *Toyo Keizai Tokei Geppo*

expansion of net exports that will add between 0.7 and 0.8 percentage point to GNP growth. If these strange bedfellows are correct in their view that exports will increase faster than imports, then Washington once again can expect little in the way of net macroeconomic stimulus to the U.S. economy from Japanese economic growth.

Not surprisingly, considering the relationship between overall external and internal growth, Nomura also weighs in with an estimate of an anemic 1.6 percent rise in Japanese domestic demand over the next 12 months. In contrast, government economists expect the external sector to trim overall growth by 0.1 point, but they see domestic demand boosting the economy by 3.6 points. The overall private forecast differs from both Nomura's and the government's, projecting that net exports will add 0.1 point to the economy's expansion and that domestic demand will contribute 2.9 points.

Nomura's low figure for the expected rise in domestic demand reflects another important difference among the forecasts. Among all 39 private-sector estimates its prediction of a 1 percent drop in real nonresidential private capital spending — which comprised 22 percent of GNP in the most recent quarter for which data are available — is the most pessimistic. The only other forecasters expecting a decline in plant and equipment outlays in the next fiscal year are Dai-Ichi Kangyo Bank, which is as gloomy regarding the overall economy as Nomura, and Nikko Research Center. By contrast, the government and the Research Institute of the National Economy, which are the most optimistic overall, also have the most favorable expectations concerning plant and equipment spending, predicting 4.5 percent and 5.2 percent growth, respectively.

In short, business investment appears to hold the key as to whether or not Japan's economy merely slows down in FY 1992 or turns in one of its worst performances in Japan's postwar history. Firms have continued to scale back their investment plans in the months since most of the forecasts summarized in the Table were released. As a result, economists recently have become, if anything, more pessimistic about the overall economy. Although Japan's GNP is unlikely to actually shrink in FY 1992 as the U.S. economy did in 1991, growth rates in the 3 percent range or even lower in both FY 1991 and FY 1992 would represent a dramatic slowdown from the numbers turned in by the Japanese economy in the FY 1987-FY 1990 period, when real growth averaged 5.3 percent a year.

Douglas Ostrom

Cabinet Seeks To Spur Japanese Economy

As signs accumulate that Japan's economy is sliding more deeply and more quickly into a recession than forecast by government and business analysts, the government of Prime Minister Kiichi Miyazawa quickly has assembled a package of short- and medium-term measures to stimulate the economy. Although the steps have been welcomed by most Japanese observers, they question whether the spate of political influence-peddling scandals dogging the ruling Liberal Democratic Party may delay enactment of the needed fiscal measures.

Despite three discount rate cuts by the Bank of Japan over the past nine months, the Japanese economy continues to slow under the weight of rising inventories, reduced manufacturing activity, cutbacks in private capital investment and weak export markets. Furthermore, analysts now are worried that consumer spending, the one remaining bright spot in the domestic economic picture, is beginning to weaken. Concern also remains strong that the continuing slump in domestic equity markets — despite the discount rate cuts and other support measures — could end in collapse and add to the economy's burdens.

In the face of this gloom the Miyazawa government has turned to the standard tools of fiscal stimulation. At a March 6 meeting the cabinet directed the government to take the following immediate actions: